

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, MARCH 27, 2007**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, March 27, 2007, commencing at 7:02 a.m.

A. ROLL CALL

Present: Council Members – Hitchcock, Katzakian, Mounce, and Mayor Johnson

Absent: Council Members – Hansen

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Johl

B. TOPIC(S)

B-1 "Overview of Governmental Accounting Standards and Practices"

City Manager King briefly introduced the subject matter.

Deputy City Manager Krueger provided a PowerPoint presentation (filed) regarding governmental accounting. Specific topics of discussion included accounting overview, definition of accounting, vocabulary, accounting process-recording, accounting process-classifying, accounting processing-reporting, cash and accrual basis reconciliation, audit process, and miscellaneous accounting topics including cash pooling basics, budget basics, interfund transactions, and accounting software and hardware.

In response to Council Member Hitchcock, Mr. Krueger stated one of the definitions of accounting came from a textbook he prefers and that there are several definitions in various textbooks and across the Internet.

City Manager King commented on the budget cycles, auditor processes, qualified versus unqualified opinions, standards for accounting and public dissemination of information, and certificate for compliance with standards.

In response to Council Member Hitchcock, Mr. King stated the opinion reflects the truthfulness of reporting regardless of what the organization's financial standing is and the opinion does not speak to whether management decisions are good decisions.

In response to Mayor Pro Tempore Mounce, Mr. Krueger stated the auditor does see the accrual basis accounting. He stated the City's practices are consistent with those of other communities and governmental accounting standards require accrual basis accounting. Mr. Krueger also stated that typically budget and mid-year reviews are not audited, but the numbers contained in the mid-year review are the same as those previously audited.

In response to Mayor Pro Tempore Mounce, Mr. Krueger stated auditor opinions are typically unqualified. He stated auditors rarely provide qualifications or refuse to issue an opinion unless there is a situation where an agency has difficulty closing its books.

In response to Council Member Hitchcock, Mr. Krueger stated that agencies had to make some adjustments that may have accounted for some accounting differences when Governmental Accounting Standards Board (GASB) 34 was adopted. Mr. Krueger provided a brief overview of GASB 34 implementation. City Manager King stated there was a great debate at the time GASB 34 was adopted regarding what methodology will better inform the public.

In response to Mayor Johnson, Mr. Krueger stated there was a focus on information services in the recent audit because there is an integral relationship between accounting records and information services. Mr. Krueger stated that because review of every transaction is highly cumbersome, there is a statistical method, which includes an internal control that auditors use to review certain transactions and compliance with requirements set forth in the Sarbane-Oxley Act.

In response to Mayor Johnson, Mr. Krueger stated the tax collector receives and processes payments throughout the year and disburses to local agencies as required, but not necessarily twice a year when payments are due. City Manager King stated many communities have a dry period and one benefit of reserves is to have cash available for those time periods. Mr. Krueger provided an overview of the pooling and portfolio investment process that many agencies use to operate on a year-round basis.

In response to Council Member Hitchcock, Mr. Krueger stated examples of temporary accounts include property taxes, sales revenue, and in lieu fees from the Department of Motor Vehicles. He stated the funding is seen on an annual basis, closed at the end of the year, and the difference transfers into the ending fund balance.

Discussion ensued between Mayor Pro Tempore Mounce, City Manager King, and Deputy City Manager Krueger regarding consistency and governmental accounting practices, the ability to stay on either a cash or accrual basis for both the Comprehensive Annual Financial Report (CAFR) and budget, case study regarding electric power contracts, ability to show liabilities and assets accurately in the budget, and similar practices used in Roseville.

In response to Council Member Hitchcock, Mr. Krueger stated Electric Utility and Public Works are the main situations for which a cash basis for budget more accurately reflects the current financial condition.

In response to Council Member Hitchcock, Mr. Krueger stated that a portion of the budget does reflect total balances of the Certificates of Participation, which are also shown in the CAFR.

In response to Mayor Johnson, Mr. Krueger stated the first time he was able to trace the current practice of showing cash basis on the budget was 1994 and there is the inference of cash basis accounting prior to that.

In response to Mayor Johnson, Mr. Krueger stated it is not difficult to alternate between cash and accrual basis accounting. Mayor Johnson suggested staying the current practices and procedures.

Council Member Hitchcock stated cash basis accounting is helpful for the budget accurately reflecting the current picture and suggested staying with the same.

Mayor Pro Tempore Mounce stated a single methodology of either cash basis or accrual accounting is best to reflect the accuracy of the financial condition.

Mr. Krueger stated transparency is important and the budget document could use improvement. He stated they will remove a reference to "accrual to cash basis adjustment" as the numbers for the same are referenced more clearly elsewhere in the document.

In response to Council Member Hitchcock, Mr. Krueger stated there are a variety of classes available on GASB 34 and 45 offered by finance officers' associations and the League of California Cities. City Manager King stated he believes presenting the budget on an accrual basis would not be reflecting an accurate picture of the current financial condition.

In response to Mayor Johnson, Mr. Krueger stated the million dollar amount references only the software and the hardware will be approximately an additional \$100,000. He stated both the software and hardware will need to be replaced at the same time.

In response to Council Member Hitchcock, Mr. Krueger stated the green striped paper is no longer available due to printing costs, but the information is available at any given time both on the Internet and Intranet. He stated they can do a better job on the summaries, which is connected to the software.

Public Works Director Prima stated accrual basis accounting is not preferred from an operating standpoint.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:31 a.m.

ATTEST:

Randi Johl
City Clerk



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Overview of Governmental Accounting Standards and practices

MEETING DATE: March 27, 2007

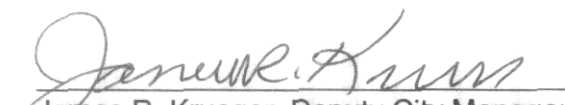
PREPARED BY: Deputy City Manager

RECOMMENDED ACTION: Receive presentation on Governmental Accounting Standards and practices.

BACKGROUND INFORMATION: There have been several changes in the way that municipal governments are required to prepare financial information. One of the most comprehensive changes, Governmental Accounting Standards Board Statement Number 34 (GASB 34), requires that cities account for all of their activities on a basis that is comparable to business enterprises. In accordance with standards and practices that have been used by businesses for decades, the results of operations (profit and loss) and financial condition (balance sheets) are now accounted for on a full accrual basis for municipal governments as well.

Although the City of Lodi and all other municipal governments have complied with all of the elements required in GASB 34, the change has not been incorporated in many of the internal reports that are used by cities. It is a common practice in business to have several different methods of reporting financial information. The methods and the reporting formats used depend primarily on the requirements of the oversight body to which the financial reports are being sent. With the implementation of GASB 34, municipal governments now face the same dilemma that businesses face related to having multiple oversight agencies and reporting requirements. The measurement focus, which relates to the recording of revenues and expenditures on either a cash basis or an accrual basis, is the substantive difference in the way internal reports (including the annual budget) are prepared in comparison to the CAFR.

Staff will make a presentation at the Shirtsleeve meeting that gives an overview of governmental accounting, a discussion of cash and accrual basis accounting and other practices used to prepare City financial reports.


James R. Krueger, Deputy City Manager

APPROVED: 
Blair King, City Manager

Governmental Accounting Overview

City Council Meeting

March 27, 2007

Accounting Overview topics

- Definition of Accounting
- Vocabulary
- Accounting Process
- Audit Process
- Cash Pooling basics
- Budget Basics
- Inter-fund transactions (Borrowing at end of year and beyond)
- Accounting Software and Hardware

Definition of Accounting

- **Accounting** – The art of recording, classifying and reporting of financial transactions, including the origination of the transaction, its recognition, processing, and summarization in the FINANCIAL STATEMENT
- **Accounting** – The systematic recordkeeping and reporting of an organization's performance in monetary terms. Accounting provides a summary of the economic results of organizational decisions for internal use and transmits them to external stakeholders such as volunteers, donors, funders, creditors and regulatory agencies.

Vocabulary

- **Accounting Equation** – $\text{Assets} = \text{Liabilities} + \text{Equity (Net Assets)}$
- **Accounts Receivable** – Services delivered or sales made and therefore money owed to your organization as of the financial statement date.
- **Accrual** - Income booked in advance of the cash received or expense booked in advance of the actual payment made so as to include all the income due and expense owed as of the date of the financial statements; the method by which to develop an economically meaningful and comprehensive measurement of performance by recognizing financial events in the period to which they relate, regardless of when the cash transactions occur.

Vocabulary

- **Asset** – Resource available to the organization which has an monetary value because it will result in an economic benefit as it is used or sold; can be broken down into 3 categories:
- **current assets** - cash, petty cash, accounts receivable;
- **fixed assets** – land, buildings, equipment, vehicles;
- **non current assets** - anything not in either of the 1st 2 categories

Vocabulary

- **Audit** - Examination of the accounting records and their supporting documentation with the objective of determining the fairness with which the financial statements present the financial position and performance of the organization; performed by a Certified Public Accountant.
- **Balance Sheet** - Summary of all the permanent accounts by category (asset, liability, net asset) of the organization, so called because the debit and credit accounts have to balance, formally showing the financial position of an organization as of a specified date; a financial “snapshot”; also known as Statement of Financial Position.

Vocabulary

- **Clean Opinion** – CPA/auditor's report which states opinion that the financial statements are fairly presented; this is the report that most organizations receive, indicating the accountant found no problems.
- **Fund Accounting** - Accounting used by governments and nonprofit organizations to segregate groups of assets, liabilities, net assets (equity), revenues, and expenditures, in accordance with the purpose for which the funds were obtained; individual donations received with no restriction as to use will be segregated from project grants received for a specific purpose to ensure that funds are utilized as intended when received.

Vocabulary

- **Liability** - Any legally existing debt or obligation, actual or estimated, due to another party (creditor) arising from a transaction (bank loan, purchase, rental, mortgage, deferred revenue).
- **Net Assets** – The financial worth of the organization; the accumulated net surpluses and deficits of the years of operation; also known as equity or capital

Vocabulary

- **Restricted Assets** - Assets / resources which are restricted by legal or contractual requirements for use only under specific circumstances or for certain purposes.
- **Working capital** – Generally used to mean the amount of money that is available to be used in an organization; in accounting, it is the difference between current assets and current liabilities and is a measure of the margin of protection for creditors and the ability to finance current operations.

Accounting Process-Recording

- Recording
 - Billing for services provided
 - Incoming Cash
 - Purchase orders
 - Invoices for goods and services
 - Taxes
 - Property Taxes
 - Sales Taxes

Accounting Process-Classifying

- Classifying and Categorizing (Chart of accounts)
- Temporary accounts
 - Revenues
 - Expenditures
- Permanent Accounts
 - Assets
 - Liabilities
 - Equity – Fund Balance – Working Capital – Net Assets

Accounting Process-Reporting

- Reporting –Consistency, Comparability, Generally Accepted Accounting Principles, Timing, Matching of revenues and Expenditures
- Governmental, Proprietary
 - Annual, Monthly, Quarterly and Mid-year
 - **Multiple Oversight agencies- State Controller, City Council, Government Finance Officers, Federal Grants, Rating Agencies**
 - Cash basis and Accrual Basis
 - Expenditures and Revenues – Receipts and Disbursements
 - Fixed Assets
 - Long term and Short term Liabilities
 - Inventory

Accounting Process-Reporting

- City Reports posted on intranet and internet
- Statement of Net Assets
- Statement of Revenues and Expenses and Changes in Net Assets
- Statement of Cash Flows

Cash and Accrual Basis Reconciliation

		FY2018 2018-19 Actual	FY2019 2019-20 Budget	FY2020 2020-21 Budget
Electric Fund				
Fund Balance Sheet				
Beginning Cash Unrestricted		7,485,337	1,704,200	3,631,403
Beginning Cash Reserved		11,871,367		13,624,238
Revenues		81,288,888	70,883,297	70,883,298
Expenditures		80,888,118	70,883,888	69,882,121
Amount to Cash Basis Adjustment		400,769		3,678,644
Net Difference		9,747,733	2,403	12,454,122
Fund Balance Sheet				
Beginning Cash Unrestricted		3,831,403	1,713,803	4,883,718
Beginning Cash Reserved		10,813,238		8,882,789
Total Fund Balance		14,644,641	1,713,803	13,766,507
Accrual To Cash Basis Reconciliation				
		Actual 2018-19 Actual	Actual 2019-20 Actual	Actual 2020-21 Actual
Account Descriptions				
Cash Accounts		4,888,833	2,585,494	8,952,007
Advances Receivable (MCPA "BOR")		1,059,896	1,209,896	3,165,001
June 30 Payer Bill (Accounts Payable)		(2,343,702)	(2,343,702)	3,943,702
July 1 Debt Service		(4,172,874)	(4,172,874)	4,172,874
Transfer from restricted cash in process 6/30/05		818,836	(818,836)	0
Unrestricted Cash		7,485,337	(3,831,403)	1,284,314
Reserved		11,871,367	(1,344,368)	11,526,998
Total Cash, Unrestricted and Reserved		19,356,704	(5,165,771)	12,811,312
Revenues (Accrual Basis)		81,288,888		70,883,298
Expenditures (Accrual Basis)		80,888,118		69,882,121
Net Difference on accrual basis		(5,922,948)		1,284,314
Revenues (Cash receipts)		80,508,210		70,883,298
Expenditures (Cash disbursements)		80,470,716		76,113,307
Net Difference on cash basis		3,797,494		(2,229,009)
Accrual to cash basis differences		7,720,442		(9,944,695)
Advances Receivable (MCPA "BOR")		1,209,896		3,943,702
June 30 Payer Bill (Accounts Payable)		(2,343,702)		4,172,874
July 1 Debt Service		(4,172,874)		4,172,874
Transfer from restricted cash in process 6/30/05		(818,836)		0
Restricted Cash Reductions		(1,344,368)		(1,344,368)
Adjustments made to cash in May/June report		(7,207,212)		2,229,009
Net Difference between accrual and cash basis		440,769		13,870,441

Accounting Process-Reporting

- Other Reporting Issues
 - Logistics of closing books
 - Preparation of working papers for review by auditors
 - Year end adjustments
 - GASB 34 Issues

Audit Process

- Attest function
 - Confirm balances, quantity and quality of financial amounts
 - Recalculate amounts
 - Test for reasonableness
 - Materiality of individual amounts and transactions
 - Purpose is not to detect fraud
 - Generally Accepted Accounting Principles
 - Governmental Accounting Standards Board
 - Generally Accepted Auditing Standards and American Institute of Certified Public Accountants (AICPA)
 - Unqualified Opinion does not mean everything is in good shape

Other Accounting Topics

- Cash Pooling basics- Trial Balance shows General Fund has times where it needs to use pooled cash
- Budget Basics- Does not need to be GAAP
- Inter-fund transactions (Borrowing at end of year and beyond) PCE/TCE, IMFs
- Accounting Software and Hardware-JDE has new versions but would need to be IBM S400